

**REPORT OF THE AUDIT OF THE  
HICKMAN COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 14, 2002**



**EDWARD B. HATCHETT, JR.  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Greg Pruitt, Hickman County Judge/Executive

Honorable J.W. Moran, Hickman County Sheriff

Members of the Hickman County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Hickman County Sheriff's Settlement - 2001 Taxes.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Hickman County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
HICKMAN COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 14, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Hickman County Sheriff as of June 14, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,186,289 for the districts for 2001 taxes. The Sheriff distributed taxes of \$1,137,641 to the districts for 2001 taxes. Taxes of \$25 are due to the districts from the Sheriff and a refund of \$3 is due to the Sheriff from the extension district.

**Report Comments:**

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$387,324 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

**Deposits:**

The sheriff's deposits were insured and collateralized by bank securities or bonds. However, as of November 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$387,324 of public funds uninsured and unsecured.



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**Kapp & Company, PLLC**  
Certified Public Accountants &  
Business Advisors

To the People of Kentucky  
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Honorable J.W. Moran, Hickman County Sheriff  
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### Independent Auditor's Report

We have audited the Hickman County Sheriff's Settlement - 2001 Taxes as of June 14, 2002. This tax settlement is the responsibility of the Hickman County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hickman County Sheriff's taxes charged, credited, and paid as of June 14, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Greg Pruitt, Hickman County Judge/Executive  
Honorable J.W. Morgan, Hickman County Sheriff  
Members of the Hickman County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$387,324 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -  
September 5, 2002

HICKMAN COUNTY  
J.W. MORAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

June 14, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 133,380	\$ 135,274	\$ 486,520	\$ 172,759
Tangible Personal Property	13,324	16,003	43,713	36,471
Intangible Personal Property				13,939
Fire Protection	595			
Franchise Corporation Taxes	31,455	30,682	109,435	
Additional Billings	46	26	114	36
Clay Reserves	77	60	279	99
Penalties	1,080	1,154	3,900	1,538
Adjusted to Sheriff's Receipt				(1)
Gross Chargeable to Sheriff	<u>\$ 179,957</u>	<u>\$ 183,199</u>	<u>\$ 643,961</u>	<u>\$ 224,841</u>
<u>Credits</u>				
Exonerations	\$ 283	\$ 301	\$ 1,029	\$ 409
Discounts	1,914	1,967	6,885	2,875
Delinquents:				
Real Estate	2,490	3,276	9,077	3,223
Tangible Personal Property	214	147	719	845
Uncollected Franchise Taxes	<u>1,707</u>	<u>2,469</u>	<u>5,839</u>	
Total Credits	<u>\$ 6,608</u>	<u>\$ 8,160</u>	<u>\$ 23,549</u>	<u>\$ 7,352</u>
Net Tax Yield	\$ 173,349	\$ 175,039	\$ 620,412	\$ 217,489
Less: Commissions *	<u>7,655</u>	<u>6,036</u>	<u>24,816</u>	<u>9,531</u>
Net Taxes Due	\$ 165,694	\$ 169,003	\$ 595,596	\$ 207,958
Taxes Paid	165,598	168,904	595,294	207,845
Refunds (Current and Prior Year)	<u>82</u>	<u>99</u>	<u>294</u>	<u>113</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 8</u>	<u>\$ 0</u>

HICKMAN COUNTY  
J.W. MORAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
June 14, 2002  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	512,704
4% on	\$	620,412
1% on	\$	43,173

\*\* Special Taxing Districts:

Health District	\$	1
Extension District		(3)
Conservation District		1
Columbus Fire District		<u>1</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statement.

HICKMAN COUNTY  
NOTES TO FINANCIAL STATEMENT

June 14, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$387,324 of public funds uninsured and unsecured.

HICKMAN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 June 14, 2002  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 7, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	200,000
Uncollateralized and Uninsured	<u>387,324</u>
Total	<u><u>\$ 687,324</u></u>

Note 3. Tax Collection Period - Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2001 through April 25, 2002.

Note 4. Interest Income

The Hickman County Sheriff earned \$997 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Hickman County Sheriff collected \$3,376 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

## COMMENTS AND RECOMMENDATIONS





HICKMAN COUNTY  
J.W. MORAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

June 14, 2002

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Have Required The Depository Institutions To Pledge Or Provide Additional Collateral Of \$387,324 To Protect Deposits

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On November 7, 2001, \$387,324 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*Talking to Clinton Bank about this.*

2) The Sheriff Should Distribute Interest Earned on Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During, 2001 tax collections, Sheriff Moran earned interest of \$997 on his tax account. However, Sheriff Moran did not pay the interest to the board of education or the fee account on a monthly basis. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response:*

*None.*

PRIOR YEAR COMMENT AND RECOMMENDATION:

The Sheriff should distribute interest earned on tax collections monthly. This comment was not corrected and is discussed above.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Hickman County Sheriff's Settlement - 2001 Taxes as of June 14, 2002, and have issued our report thereon dated September 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Hickman County Sheriff's Settlement - 2001 Taxes as of June 14, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$387,324 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hickman County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -  
September 5, 2002

